

COVID-19 and Professional Sporting Leagues: European Football

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Chapter 7

The Financial Impact of COVID-19 on Professional Football in Europe

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Introduction

It has taken a global health pandemic to unmask the frailties of football's finances. Financial problems at individual football clubs are nothing new but the Covid-19 pandemic has shone a blinding and very public spotlight on just how financially precarious this industry is. A host of professional football clubs throughout the European leagues have been pushed to the brink of collapse following a lockdown of match day crowds and major challenges in securing commercial endorsements. In the early stages of the pandemic, as leagues shut down across Europe, revenues dried up presenting acute cash flow challenges for the game. While some leagues managed to restart, others curtailed their season. However, even when some leagues returned, the games were played behind closed doors, without paying fans, and this situation extended to almost the entire 2020/21 season. This has exacerbated the cash flow challenges facing clubs and those further down the league systems in different countries have been hit the hardest.

No club will be immune to financial repercussions from the crisis, but some will be better placed than others. Take the English Premier League (EPL) as an example. The EPL and its clubs generated combined revenues of over £5bn in 2018/19, yet nine clubs still made a pre-tax loss (Deloitte, 2020). In the English Football League (EFL), the three leagues directly below the EPL, revenues are not on the same scale. The average revenue per club in the Championship (tier 2), League 1 (tier 3) and League 2 (tier 4) stands at £33m, £8m and £4m respectively compared to average EPL revenues of £215m per club (Deloitte, 2020). Deloitte estimated that the European football industry saw total losses cumulating to around £2billion by the summer of 2021, and it will take years for clubs to fully recover. Moreover, given the established, and growing, financial disparity between leagues, there is a real danger of severe financial crisis and administration at club level. Indeed, one club in England (Wigan Athletic) was already placed into administration in July 2020 and it seems inevitable that

more will follow as the pandemic and recovery from it continues to take considerable time.

Yet the Covid-19 pandemic allows us to revisit existing issues in how football leagues are governed. Existing structures have created a significant financial disparity between the professional leagues; a financial disparity that has grown during the last thirty years and which Covid-19 has laid bare. This context serves as the basis for this chapter. We aim to outline the financial impact of the pandemic on the European football industry. We will use examples from a range of leagues and clubs but focus some of our data exclusively on the English football industry which remains the biggest in world football. We will focus on some of the key issues regarding football club finance including where clubs get their money from and what they spend it on. This will include the distribution of wealth and financial disparity between clubs in the different football systems that leads to overspending and potential insolvency.

We consider the impact of broadcast rights distribution, solidarity payments and parachute payments across the system and provide strategic direction for a collective recovery. We will cover the issues of potential changes that have already been discussed by the clubs themselves such as Project Big Picture in English football and the ill-fated idea of a European Super League that was curtailed as quickly as it was introduced in a crazy 48 hours in April 2021. Our intention here is to stimulate discussion, analysis, interest, and research on how football governing bodies can use the opportunities presented by the pandemic to reset the financial landscape in the European football system. Such discussion provides a more balanced, competitive suite of competitions that collectively tackle financial inequality and put aside self-interest. We reposition the winner takes all narrative, requesting clubs to reflect on the sporting product that has led to both success and failure at an individual club level. We hope that this chapter provides an interesting record and reference point for future research and practice of those operating in football organisations. Learning lessons from this crisis and

ensuring league administrators are better prepared to deliver a financially sustainable game is crucial.

The Impact on Club Revenue Streams

To examine the impact that the pandemic has had on professional football clubs, we need to understand the basic aspects of finance within a business. Put simply, this comes down to the principles of income and expenditure. We will focus on these terms for the purpose of this chapter. Of course, there is scope to go much further with a discussion around finance in sport, but we have chosen to focus on the basics for this chapter. A more detailed overview of accounting and finance in football including regulatory frameworks, the composition of the Income Statement, Balance Sheet, Cash Flow Statement, and the construction of football club annual reports can be found in a different chapter on finance and accounting in football by Wilson and Plumley (2018) in the *Routledge Handbook of Football Business and Management*.

Analysing an *Income Statement* allows us to understand where a business earns its money from. For a professional football club, revenue is derived from three main sources: matchday revenue, commercial revenue, and broadcasting revenue. The first two of these are earned (e.g., the club earns the revenue based solely on their own operations and can control the revenue stream to a certain extent). The latter (broadcasting revenue) is unearned to a degree in the sense that broadcasting contracts are agreed at the league level with external broadcasters with the revenue then being shared between the clubs in that league. Thus, any broadcasting income that a club receives is dependent on the league it competes in. The club has partial control over what league it operates in (although this is also dependent on the risk of sporting success and/or failure) but it does not have control over the price of the broadcasting contracts which are negotiated at league level.

If we consider these revenue streams in the context of Covid-19, broadcasting revenue is the revenue item that has been least impacted. Owing to the fact that the bigger leagues generate larger broadcasting deals, this has meant that clubs further up the league system in any given country (e.g. EPL clubs in England) have been more immune to the financial impact of Covid-19. The vast majority of broadcasting income was still realised by clubs during the pandemic with games being shown on television whilst fans have been excluded from attending matches live. There were some rebates and settlements agreed between leagues and broadcasters when there was a complete shut down of the sport for three months in March 2020 but aside from this the broadcasting income stream has operated in business-as-usual terms throughout the pandemic. For example, in the EPL, Sky Sports settled on a £170m rebate with the league in June 2020 to cover the period with no games taking place. For context, the current annual rights fee for the EPL based on United Kingdom (UK) rights is around £1.47bn. Despite these rebates, the clubs were still in receipt of most of the television cash. In a similar way, most of the commercial revenue (at the top end of the game) has been retained. There was also talk of rebates and settlements in this regard at individual club level although the details are much harder to come by as not every individual commercial deal is listed in a publicly available format. However, in most cases, where clients have still gained relevant exposure through televised games, commercial deals have held firm for the most part.

The third revenue item, matchday revenue, has suffered the hardest hit. Games being played behind closed doors means clubs have not been able to sell tickets to fans which consequently means that this revenue stream has almost completely dried up during the pandemic. It has also meant that clubs further down the league systems have been hit the hardest. In English football, for example, most clubs in the EPL generate the majority of their revenue through broadcasting (between 50-80% of total revenue). In the EFL (particularly

League 1 and League 2) the opposite is true. For these clubs, it is matchday income that makes up anything between 60-90% of total revenue. These clubs have essentially had their financial lifblood cut off because of the pandemic.

This picture of revenue reliance meant that the bigger clubs were always less at risk than those further down the league system, although they have still seen their revenues take a substantial hit. While recent pre-Covid-19 seasons demonstrated a stable growth path of the football industry's elite, the end of the 2019/20 season and 2020/21 season was distressing for most clubs. Indeed, Deloitte (2021) estimate that the top 20 revenue generating football clubs in Europe will have missed out on over €2 billion of revenue during that time. This is primarily driven by matchday revenue but also rebates to broadcasters and some commercial impacts as well as the lost potential to continue their previous growth trajectory from past periods (Deloitte, 2021).

Table 1 outlines the revenue impact for a sample of some of the biggest clubs in Europe by comparing 2019/20 revenue with 2018/19 figures. Every club in Table 1 has seen a revenue decrease due to the pandemic, albeit to varying extents. For example, Manchester United and Barcelona suffered the largest annual decreases in absolute terms (€131.1m and €125.7m respectively) whereas Borussia Dortmund only recorded a decrease of €6m. Andrea Sartori, KPMG's Global Head of Sports, provided a good explanation as to why this was the case:

Due to the partial absence of gate receipts, in addition to the renegotiation, suspension or cancellation of payments from media and commercial agreements, a common denominator of the industry was liquidity concerns. For several European clubs, liquidity issues could only be faced, sometimes only partially, through renegotiation, reduction or postponement of footballers' wages. However, some clubs could mitigate the impact of the pandemic with established and successful business operations and/or good sporting performance. For example, clubs who could sell in the summer 2019 transfer windows some of their talents could find some financial remedy in their business model, whereas qualification and/or successful participation in international

tournaments could, in some cases, also play a significant role in clubs' financial performance. (Sartori, 2021)

Table 1: Selected European Clubs Revenue Change 2018/19 to 2019/20

Club	2019/20 Revenue (€m)	2018/19 Revenue (€m)	Absolute Change (€m)	% Change
FC Barcelona	715.1	840.8	-125.7	-15%
Real Madrid	691.8	757.3	-65.5	-9%
Bayern Munich	634.1	660.1	-26.0	-4%
Manchester United	580.4	711.5	-131.1	-19%
Liverpool	558.6	604.7	-46.1	-8%
Manchester City	549.2	610.6	-61.4	-11%
Paris Saint-Germain	540.6	635.9	-95.3	-15%
Chelsea	469.7	513.1	-43.4	-9%
Tottenham Hotspur	445.7	521.1	-75.4	-15%
Juventus	397.7	459.7	-62.0	-13%
Arsenal	388.0	445.2	-57.2	-13%
Borussia Dortmund	365.7	371.7	-6.0	-2%
Atletico Madrid	331.8	367.6	-35.8	-10%
Inter Milan	291.5	364.6	-73.1	-20%

Source: (Deloitte Football Money League, 2021)

Liquidity issues linked to player wages is particularly pertinent for the football industry as it moves out of the pandemic. Indeed, the players themselves are still the single biggest cost to a professional football club with the absolute amount paid in player salaries, in recent years, being a significant factor of club costs during the pandemic, and in many cases wage inflation outperforms revenue growth. We now turn our attention to the impact on club expenditure and costs to outline this point further.

The Impact on Club Expenditure/Costs

It is no secret that in the world of professional football the single biggest cost to a club is player salaries. This has been the case throughout much of football's history, but the total amount earned by players has grown substantially in recent years in line with increases in

broadcasting contracts and commercial deals. We will return to the issue of player salaries later in this section but first it is important to understand some of the new additional cost issues that have faced clubs during the pandemic. We have talked about the loss of revenue to clubs with games played behind closed doors but the fact that the games have taken place means that there have still been costs incurred to the clubs. Staging a professional football match has operational costs such as running the stadium on matchdays including paying for security staff all the way down to turning the lights on in the changing rooms. Clubs have been footing the bill of hosting matches without any of the financial benefits in return.

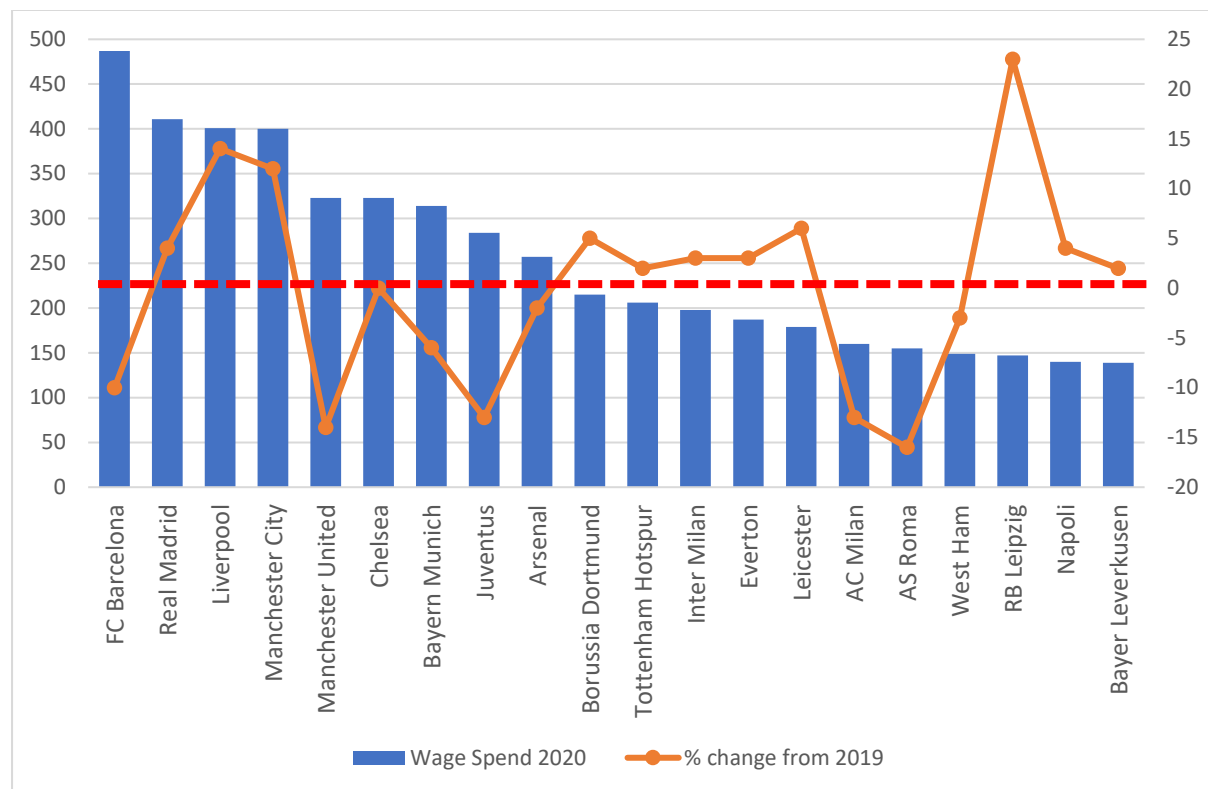
This had led to some unique financial situations that we haven't seen historically in professional sport such as short-term pay cuts, the furlough scheme and the cost of regular Covid testing to ensure players are fit to play. At the start of the pandemic, many clubs agreed pay cuts with their players to manage short term costs. Some also took advantage of the UK Government's furlough scheme and put all their staff, including the players, on furlough. Part of this decision, for clubs further down the league system, was linked to the cost of mandatory Covid testing to ensure that players did not have the virus before taking to the pitch. The estimated cost of this testing to clubs in the UK was £10,000 per week. To put this into context, some clubs in the third and fourth tiers of English football were already losing significant amounts of money on a weekly basis pre-Covid. For example, Oxford United FC and Fleetwood Town FC (both League 1 clubs) had operating losses of around £88,000 and £113,000 per week in 2019 before the pandemic.

Given the added costs of Covid testing, some clubs argued that they simply could not afford to carry on without fans in grounds. This led to an extraordinary rescue package provided by the EPL to the EFL. The EPL provided £50m worth of funds to League 1 and League 2 clubs and agreed to provide a payment commitment of up to £15m to cover interest, arrangement fees and professional fees to allow the EFL to secure a £200m loan facility that

it will then on-lend to Championship Clubs (tier 2) interest free. Outside of the EFL and further down the league system in England, the government provided an initial rescue package of £10m for some of the non-league clubs but once that money ran out these clubs were told they would have to request further loans and that no more grants would be made available. This led to an unusual situation in the National League (tier 5 of English football) in 2020/21 where relegation from the league was voided for a season as two clubs refused to play out the season owing to the financial situation. Promotion from the league into the EFL was still allowed though which left many questioning the sporting integrity of the competition in that given season.

This sporting integrity is directly linked to the finances of club football, and we cannot separate the two components in the modern-day game. What we see on the pitch is inextricably linked to what happens off it – which brings us neatly back to player salaries. Figure 1 outlines the European clubs that have spent the most on wages in 2020 with figures correct as of June 2021. At this point, over 150 European football clubs had submitted 2020 accounts (with Ligue 1 clubs in France being one of the main exceptions). We have also highlighted the percentage change in wages compared to the year 2019 (pre-pandemic).

Figure 1: Highest Wage Spending by Club (2020)

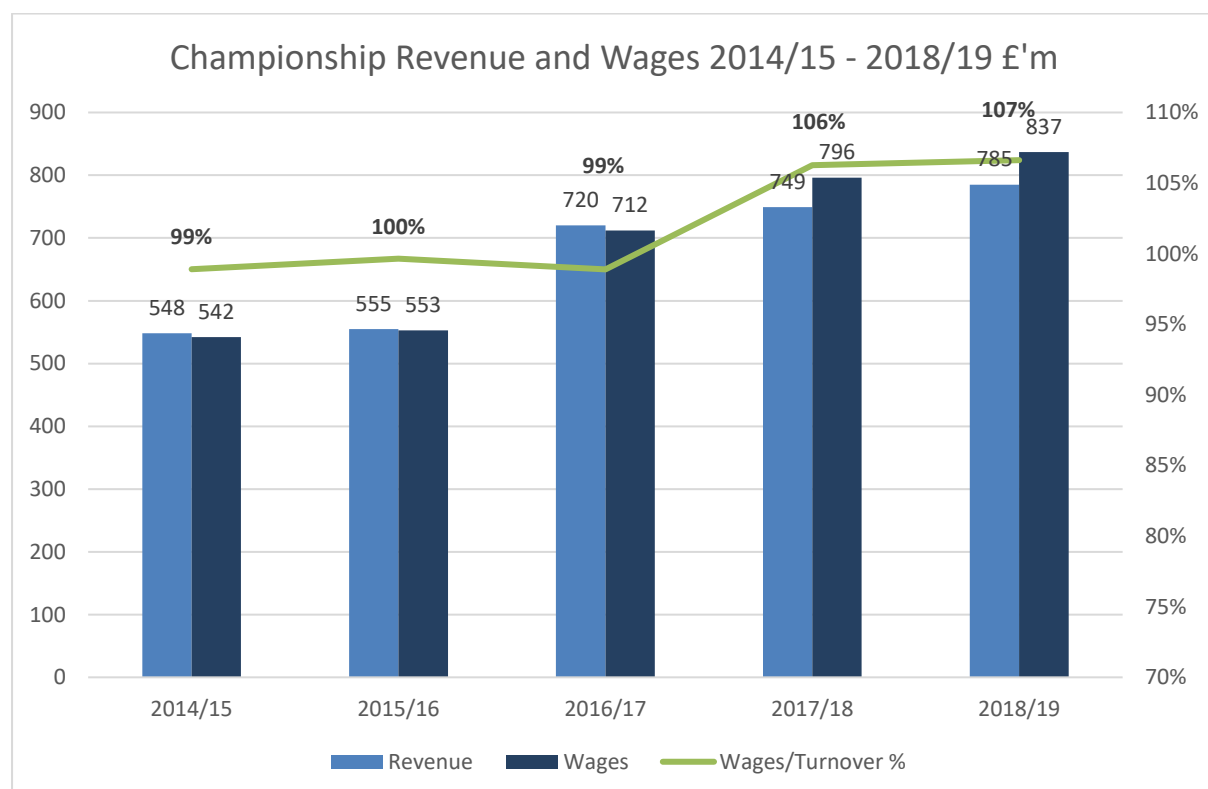


Comparing this to Table 1, we can see football's main problem. In many cases, even Europe's biggest clubs are spending in excess of 70% of their turnover on player salaries. Furthermore, some clubs, despite the pandemic, increased their wage spend in 2020 e.g., Liverpool (+14%), Manchester City (+12) and RB Leipzig (+23%). The issue of player wages set against a level of turnover is still a huge challenge in the football industry with no set punishable measure or salary cap in place to control this metric effectively. This is exemplified perfectly by the situation in the English Football Championship (tier 2 of English football). Many clubs in this league are overstretching themselves financially attempting to reach the riches found in the promised land, the EPL. In 2020, Championship clubs had some of the biggest wages and turnover ratios in Europe. For example, Reading FC (211%), Brentford FC (186%), Preston North End (163%) and Middlesbrough (150%) all returned ratios over 150% in 2020 and several other clubs in that league posted figures above 100%. The most bizarre comparison here is outlined by the fact that Hull City FC (playing in tier 3

of English football in 2020) had a larger wage to turnover ratio than AS Roma of Serie A (112% versus 109%).

Figure 2 further highlights this issue in the Championship historically. Over the past few years, almost all club revenue (and more in some cases) in that league has been spent on player wages. Moving forward in a post-Covid football world, this level of spending on player salaries is simply unsustainable. Clubs were in a precarious financial position pre-pandemic and it is quite clear given the headline findings so far regarding the impact of Covid on club finances that the pandemic should serve as a wake-up call to the industry and provide the opportunity for clubs and league organisers to deliver real change and a financial reset to the industry.

Figure 2: Championship Revenue and Wages 2014/15-2018/19



For the Greater Good?

Before we can consider what change should look like, however, we need to consider some proposals that have already been placed on the table during the pandemic. So far, it has been the clubs that have put these suggestions forward so anything that follows should be taken with a ‘pinch of salt’ and understood through the lens of significant governance challenges and power plays between the leagues and clubs and between the clubs themselves. Some of these proposals might have been presented as collective action for the greater good, but they are also laced in vested self-interest. First, we begin with the initial idea that was floated during the pandemic (around October 2020) titled, Project Big Picture in English football.

Project Big Picture (a motion tabled by the owners of Liverpool and Manchester United to revisit the governance structure of the EPL and how broadcasting revenue is distributed throughout the leagues) raised further eyebrows surrounding its financial implications for a number of clubs. Ironically, it is the power and dominance of clubs such as Liverpool and Manchester United that is in part the issue. Revenue distribution (from the EPL broadcast deal) within the English football pyramid has been and remains a major problem. It has led to significant financial inequality between the EPL and the EFL and has also attributed to a decline in competitive balance in the pyramid (Wilson, Ramchandani, & Plumley, 2018). On the face of it, therefore, there were some positives to Project Big Picture that could be used to address these issues. A £250m bailout to the EFL would not only be welcome but necessary for some lower league clubs to survive. Similarly, the proposal of distributing 25% of future EPL broadcasting revenue to the EFL appeared to be a positive step. Reducing the EPL to 18 teams would also potentially lead to better competitive balance within that league itself (Ramchandani, Plumley, Preston, & Wilson, 2019) which is potentially good news for future revenue generation for both the EPL and EFL. Perhaps most

importantly, Project Big Picture proposed to scrap parachute payments which are destructive to competition (especially in the Championship) and help fuel inequality.

However, clubs outside of the elite were quite rightly troubled by the proposal within Project Big Picture to change the way in which the voting rights worked. The current one-club, one-vote principle would have been abolished, as would the rule that 14 clubs out of the current 20 are needed to agree on a policy as a majority vote. In its place, Project Big Picture wanted to grant the voting powers exclusively to the nine clubs that have remained in the EPL the longest (Arsenal, Chelsea, Everton, Liverpool, Manchester City, Manchester United, Southampton, Tottenham Hotspur and West Ham) with only six of those nine clubs needed to vote for major change. As such, the proposal only served as another example of a land grab by the established elite and one that would not be in the interest of the whole industry. The 'big 6' clubs have already taken more share of the international television money (which used to be shared equally) and reducing the number of teams needed to pass a collective vote would only have been to the detriment of the smaller clubs in the league system.

Project Big Picture was over as quickly as it had begun, and talks moved on to the idea of a European Football League. Nothing new here, of course. Talks of a breakaway league being set up by Europe's biggest clubs has been on and off for the last two decades. However, in April 2021, twelve of Europe's biggest clubs shocked the world by saying they had agreed to begin a European Super League as soon as practically possible. This competition would be a closed league, midweek competition that would directly compete with UEFA's flagship European competition the UEFA Champions League. The league was reportedly being backed by Wall Street banking giant JP Morgan with the promise of billions on offer to the clubs that signed up (Ahmed, 2021). The 'big 6' in England (Arsenal, Chelsea, Liverpool, Manchester City, Manchester United, Tottenham Hotspur) all signed up as part of the agreement along with six other European powerhouses (Barcelona, Real Madrid, Atletico

Madrid, Juventus, Inter Milan and AC Milan) with a promise of more to follow. However, after a seismic backlash from pundits, broadcasters, fans, players, senior government ministers and of course UEFA themselves who threatened the clubs with legal action, the league was disbanded almost as quickly as it had begun. In less than three days, nine of the twelve clubs withdrew their interest leaving only Barcelona, Real Madrid and Juventus desperately trying to defend their position. Again, there was talk of the greater good and these clubs offering to 'save' the entire European football industry with the promise of trickle-down economics. However, to the surprise of few, the finer details showed that it would have been the clubs themselves that would have always been the main beneficiaries and any promise of money being passed down would have been tiny in comparison to the revenue ringfenced for the clubs in the European Super League. Notwithstanding this, the bigger clubs are already set to benefit further in the future anyway with UEFA Champions League reforms passed in 2021 (to begin in 2023/24) that will see more games in that competition and more money on offer for the clubs that compete in it.

Meanwhile, the crux of the problem remains. Many football clubs choose to make bad financial decisions. If these clubs were run properly then there is no need for a bailout. Some have argued that Project Big Picture and a European Super League would provide financial sustainability when, in fact, the opposite is probably true. It would just allow clubs to carry on operating in the reckless financial manner that they were before. Clubs need to begin acting as genuine accounting going concerns and living within their means. These proposals have underlined one thing. Football is crying out for a restart or a reboot. It needs more effective financial regulation, fairer distribution of revenue, salary caps to make owners make better choices, and, most importantly, some perspective. If the clubs do not start collectively acting together rather than working in their own vested self-interest more clubs will fall into insolvency and cease to exist. Any reset needs to reimagine the system and cause a

fundamental shift in behaviour. If we ignore the noise, all we do is present a short-term cash solution and fail to resolve excessive spending throughout the different football league pyramids across Europe. This continues to be the main issue, but then again, it always has been.

A Move Towards Financial Sustainability

The Covid-19 pandemic must serve as a call to action for football and its clubs to consider a financial reset for the benefit of the game. We have highlighted in this chapter the impact that the pandemic has had on club finances and hinted at some wider power struggles within the games' governance framework that is distorting the sporting playing field. It is widely acknowledged that professional football clubs act as economic partners to deliver the product to its audience (e.g., Dobson & Goddard, 2011). In short, the clubs need each other to survive both on and off the pitch. In this regard, now is not the time for clubs and leagues to act in self-interest. Instead, it is a time to engage with evidence and for collective action.

There appears to be a real appetite for change in the football industry moving forward. In the English system alone, there have been calls to action from high profile figures in the game such as Gary Neville, who first promoted the idea of a manifesto for change in response to Project Big Picture (Winter, 2020). Additionally, a fan led review of English football is currently ongoing (summer 2021) with senior politicians involved at Government level. The clubs themselves are also attempting to drive change through collective working groups such as Fair Game. All these proposals offer good suggestions that support our academic work in the area and recommendations made in the past. Some of these are specific to the English football industry but others are more general and could be applied throughout the European game. These include recommendations such as:

- Deciding on a new way to re-distribute broadcasting revenues to bridge the financial gap between the leagues. A more equal distribution which could also be conditional to cost-reduction targets, of the broadcasting rights, would potentially improve competitive balance of leagues, and would possibly begin to bridge the financial gap between some clubs. This in turn may reduce the tendency to gamble thus reducing volatility and risk in financial performance.
- Reviewing causes of financial stress in the EFL including solidarity payments and parachute payments. Solidarity payments paid to Championship clubs are dwarfed by parachute payments and by the central broadcasting money to EPL clubs which creates an immediate financial disparity between the EPL and EFL. Scrapping parachute payments completely or re-distributing that money wider around the EFL clubs would be a better option.
- In addition, cost reduction targets - incentivised with broadcasting rights redistribution - could be implemented to improve financial stability at all levels of the game. We are quick to punish those with poor financial performance, but we must also consider rewarding good financial performance.
- Introducing a salary cap at individual league level. Ideally, this should be a fixed cap with agreed exceptions as opposed to a cap set against a percentage of turnover. However, if it was to be set against turnover it should be set at no more than 50% with an additional allowance on top to be set against gate receipts to provide clubs with bigger attendances more scope to spend against the cap. Whichever method is chosen, a salary cap would help clubs to keep costs under control to some extent and promote financial sustainability in the long-term.
- Creating a new regulatory body for football that is independent of the current structure of the game. Give the independent regulator the power to reward and punish

and make sure that the regulator has access to real time data from the clubs to be able pinpoint accurately situations of financial distress. There is also potential to review licensing systems at league level.

- At governance level, it would be advisable for UEFA, the EPL and the EFL to revisit the FFP regulations that were designed to bring about financial sustainability. Whilst there have been positive instances of more clubs conforming to the break-even principle and generating profit since the implementation of FFP, the overall picture of financial health is still poor. Greater consistency is needed within the regulations to help clubs deliver long-term financial sustainability.
- Revisiting the Fit and Proper Persons Test regarding ownership structure at club level and reduce the financial reliance on owners by implementing some of the suggestions outlined above.
- Liaising with supporter organisations and be transparent and accountable to the fan base. This does not necessarily mean supporter ownership of clubs or giving fans seats on boards, but clubs can do more to be transparent with fans about their financial situation and long-term plans for the club.

Summary

This chapter has outlined the financial impact of the Covid-19 pandemic on professional football club finance. The situation is bleak and will remain so as the wider world navigates its way out of the pandemic. Things will most likely get worse before they get better. Clubs must look to diversify revenue and become self-sustainable in a post-Covid world. All of this must be done whilst simultaneously trying to maximise sporting performance (at a high cost). Football has struggled with this balancing act in the past, but we have provided some meaningful suggestions in this chapter as to how we think the football

world can work together to achieve this objective. There has always been the question raised as to whether professional football clubs are 'too big to fail'. The evidence points to this not being the case. The European giants may be immune to some extent but for the rest of the clubs, financial sustainability remains an issue. Therefore, it would be unwise of clubs and league organisers not to heed the warning signs given the precarious nature of their financial health and uncontrollable external market factors and economic shocks such as the global pandemic caused by Covid-19.

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